

DURAND AREA SCHOOLS

DURAND, MICHIGAN

AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2007

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Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

September 5, 2007

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Durand Area Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Durand Area Schools, as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Durand Area Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Durand Area Schools as of June 30, 2007, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated September 5, 2007 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis information on pages II - VIII, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Durand Area Schools' basic financial statements. The additional information presented on pages 20 - 38, is presented for purpose of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lewis & Knopf P.C.
LEWIS & KNOFF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Durand Area Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2007.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements:

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

District Wide Financial Statements: (Continued)

These two statements report the Durand Area Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreases in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds and its private purpose trust funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SUMMARY OF NET ASSETS:

The following summarizes the net assets at the fiscal years ended June 30, 2007 and 2006:

	<u>NET ASSETS SUMMARY</u>	
	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Current Assets	\$18,475,999	\$19,026,152
Non-Current Assets	<u>14,396,436</u>	<u>12,091,008</u>
<u>TOTAL ASSETS</u>	<u>\$32,872,435</u>	<u>\$31,117,160</u>
<u>LIABILITIES</u>		
Current Liabilities	\$6,600,806	\$5,317,860
Long-Term Liabilities	<u>23,649,708</u>	<u>24,701,730</u>
Total Liabilities	\$30,250,514	\$30,019,590
<u>NET ASSETS</u>		
Invested in Capital Assets - Net of Related Debt	1,184,740	934,520
Restricted - Debt Service	968,474	800,418
Restricted - Capital Projects	417,706	256,530
Unrestricted	<u>51,001</u>	<u>(893,898)</u>
Total Net Assets	<u>\$2,621,921</u>	<u>\$1,097,570</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$32,872,435</u>	<u>\$31,117,160</u>

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2007 and 2006, the District wide results of operations were:

	<u>2007</u>	<u>2006</u>
<u>REVENUES</u>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$978,436	\$943,962
Property Taxes Levied for Debt Service	1,434,501	1,363,064
Property Taxes Levied for Capital Projects	175,910	167,902
State of Michigan Unrestricted Foundation Aid	12,246,883	12,220,458
Other General Revenues	<u>738,027</u>	<u>217,336</u>
Total General Revenues	\$15,573,757	\$14,912,722
<u>Operating Grants:</u>		
Federal	929,220	569,699
State of Michigan	484,784	502,012
Other Operating Grants	<u>114,831</u>	<u>144,835</u>
Total Operating Grants	\$1,528,835	\$1,216,546
<u>Charges for Services:</u>		
Food Service	281,828	312,909
Athletics	92,534	76,851
Other Charges for Services	<u>370,914</u>	<u>358,080</u>
Total Charges for Services	\$745,276	\$747,840
Total Revenues	\$17,847,868	\$16,877,108
<u>EXPENSES</u>		
Instruction & Instructional Support	9,185,901	9,655,744
Support Services	4,574,660	4,626,404
Community Services	139,266	115,659
Food Service	593,338	562,410
Athletics	355,038	354,937
Bond Issuance Costs	3,800	134,039
Interest on Long-Term Debt	1,054,132	611,097
Depreciation	<u>417,382</u>	<u>530,168</u>
Total Expenses	\$16,323,517	\$16,590,458
<u>INCREASE IN NET ASSETS</u>	\$1,524,351	\$286,650
<u>BEGINNING NET ASSETS</u>	<u>1,097,570</u>	<u>810,920</u>
<u>ENDING NET ASSETS</u>	<u><u>\$2,621,921</u></u>	<u><u>\$1,097,570</u></u>

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2007, the District's Total Net Assets increased by \$1,524,351 to a total of \$2,621,921. The largest portion of the net assets are the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) increased by \$250,220 during the year due to purchases of new capital assets and principal payments on related debt exceeding depreciation. The District's Unrestricted Net Assets increased by \$944,899 during the year and the restricted portion of the net assets increased by \$329,232. The restricted Net Assets consists of restricted debt retirement funds that may only be used to pay bonded debt and restricted capital projects funds that may only be used to fund capital projects. The unrestricted net assets may be used to fund the educational services provided to students.

Analysis of Results of Operations

The district's overall revenues exceeded its expenses for the year by \$1,524,351. The total revenues increased by \$970,760 or 6% over last years amounts. The major changes were increases in the Title I federal grant and property taxes. Expenditures decreased by \$266,941 or 2% over last year. Major changes were decreases in staffing.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. Unreserved fund balance for the general fund increased by \$495,128 during the year with the increase coming primarily from an increase in cash. Revenues for the year increased by \$428,868 primarily due increases in state aid and federal Title I grants. Expenditures and other financing uses decreased by \$42,440, primarily due to decreases in transfers to other funds and lower than expected health care costs. The major source of general fund revenues is state aid and taxes. An analysis of them is as follows:

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
- c. The District's non-homestead tax levy

2. Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Durand Area Schools foundation allowance was \$7,085 per student for the 2006-2007 school year.

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

Analysis of Financial Position (Continued)

General Fund (Continued)

3. Student Enrollment:

The District's student enrollment for the fall count of 2006-2007 was 1,844 students. A decrease of 73 students from the prior year.

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

The District levies 16.5816 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2006-2007 fiscal year was \$978,436. An increase of \$12,402 from the prior year.

2006 Capital Projects Fund

The District's Capital projects fund balance decreased by \$2,625,208 as the District continues a construction project. Investment earnings are the primary source of revenue in the fund. Expenditures, which are restricted for ongoing construction projects amounted to \$2,818,015 for the current year.

GENERAL FUND BUDGETARY HIGHLIGHTS:

GENERAL FUND BUDGET VS. ACTUAL

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Actual & Original Budget %</u>	<u>Variance Actual & Final Budget %</u>
Revenue	\$14,771,911	\$14,844,715	\$14,958,926	0.49	0.77
Expenditures	14,730,018	14,745,206	14,463,798	0.10	1.91
<u>TOTAL</u>	<u>\$41,893</u>	<u>\$99,509</u>	<u>\$495,128</u>		

ANALYSIS OF BUDGETS:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Durand Area Schools amends its budget quarterly during the school year. The June, 2007 budget amendment was the final budget for the fiscal year.

There were no significant variations between the original and final budget for revenues. The variations between the original and final budgets for expenditures varied slightly due to higher than expected utility and fuel costs.

There were no significant variations between final budgets and actual results for both revenues and expenditures.

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

CAPITAL ASSET AND DEBT ADMINISTRATION

A. Debt, Principal Payments

The District made principal payments on bonded, long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	Principal Balance 7-01-06	Increases (Decreases) 6-30-07	Principal Payments 6-30-07	Principal Balance 6-30-07
Energy & Durant Bonds	\$159,559	\$0	\$0	\$159,559
Building & Site Bonds	24,275,000	0	570,000	23,705,000
Severance Payable	385,000	0	135,000	250,000
Sick & Vacation Pay Payable	600,871	0	300,722	300,149
<u>Total Long-Term Bond Obligations</u>	<u>\$25,420,430</u>	<u>\$0</u>	<u>\$1,005,722</u>	<u>\$24,414,708</u>

B. Capital Assets

The district's net investment in capital assets decreased by \$373,665 during the fiscal year. This can be summarized as follows:

	Balance 7-1-06	Additions	Deductions	Balance 6-30-07
Capital Assets	\$23,059,026	\$149,534	\$0	\$23,208,560
Less: Accumulated Depreciation	(11,105,338)	(523,199)	0	(11,628,537)
<u>Net Investment Capital Outlay</u>	<u>\$11,953,688</u>	<u>(\$373,665)</u>	<u>\$0</u>	<u>\$11,580,023</u>

Significant additions were the purchase of two buses.

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

* Foundation Allowance

The Board of Education and Administration agreed to an estimate of a foundation allowance of \$7,050 per pupil for the 06-07 fiscal year based on information received from various educational organizations such as Michigan Association of School Business Officials, Michigan Association of School Administrators, and the Michigan Association of School Boards as well as discussions local state representatives. The political debate regarding the funding of public education, the current economic climate in the State of Michigan and the gubernatorial election will all affect this estimate before the final foundation allowance is known.

* Retirement Rates

The continuing cost of health insurance to current and potential retirees continues to drive the rate increases the Michigan School Personnel Retirement System recommends to the legislature for approval. The retirement rate is anticipated to decrease to 16.52% in 07-08 from 17.74% in 06-07.

* The Durand Area Schools 2007/2008 adopted budget is as follows:

<u>REVENUE</u>	\$14,762,582
<u>EXPENDITURES</u>	<u>14,761,054</u>
<u>NET OVER BUDGET</u>	<u><u>\$1,528</u></u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Durand Area Schools.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2007

	<u>Governmental Activities</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and Cash Equivalents	\$4,892,466
Investments	11,199,040
Due from Other Governmental Units	2,266,168
Inventory	7,752
Prepaid Expenses	110,573
Total Current Assets	<u>\$18,475,999</u>
<u>NON-CURRENT ASSETS</u>	
Construction in Progress	2,816,413
Capital Assets	23,208,560
Less: Accumulated Depreciation	<u>(11,628,537)</u>
Total Noncurrent Assets	<u>\$14,396,436</u>
<u>TOTAL ASSETS</u>	<u>\$32,872,435</u>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	\$1,122,036
State Aid Note Payable	3,500,000
Salaries Payable	1,041,719
Accrued Expenses	172,051
Current Portion of Long-Term Obligations	765,000
Total Current Liabilities	<u>\$6,600,806</u>
<u>NON-CURRENT LIABILITIES</u>	
Noncurrent Portion of Long-Term Obligations	<u>23,649,708</u>
<u>TOTAL LIABILITIES</u>	<u>\$30,250,514</u>
<u>NET ASSETS</u>	
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	1,184,740
Restricted for:	
Debt Service	968,474
Capital Projects	417,706
Unrestricted	<u>51,001</u>
<u>TOTAL NET ASSETS</u>	<u>\$2,621,921</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$32,872,435</u>

See accompanying notes to the basic financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		Net (Expense) Revenue & Change in Net Assets
		Charges For Services	Operating Grants and Contributions	
Governmental Activities:				
Instruction	\$9,185,901	\$0	\$1,072,775	(\$8,113,126)
Support Services	4,574,660	248,430	141,854	(4,184,376)
Community Services	139,266	122,484	0	(16,782)
Food Service	593,338	281,828	314,206	2,696
Athletics	355,038	92,534	0	(262,504)
Bond Issuance Costs	3,800	0	0	(3,800)
Interest on Long-Term Obligations	1,054,132	0	0	(1,054,132)
Depreciation - Unallocated	417,382	0	0	(417,382)
<u>TOTALS</u>	<u>\$16,323,517</u>	<u>\$745,276</u>	<u>\$1,528,835</u>	<u>(\$14,049,406)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				2,588,847
State Aid				12,246,883
Investment Earnings				674,968
Miscellaneous				63,059
Total General Revenues and Transfers				<u>\$15,573,757</u>
Change in Net Assets				<u>\$1,524,351</u>
Net Assets - Beginning				<u>1,097,570</u>
<u>Net Assets - Ending</u>				<u>\$2,621,921</u>

See accompanying notes to the basic financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2007

	General Fund	2006 Capital Projects	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$3,415,009	\$45,210	\$1,432,247	\$4,892,466
Investments	0	11,199,040	0	11,199,040
Due from Other Governmental Units	2,261,438	0	4,730	2,266,168
Due from Other Funds	0	0	7,528	7,528
Inventory	0	0	7,752	7,752
Prepaid Expenses	110,573	0	0	110,573
<u>TOTAL ASSETS</u>	<u>\$5,787,020</u>	<u>\$11,244,250</u>	<u>\$1,452,257</u>	<u>\$18,483,527</u>
<u>LIABILITIES</u>				
Accounts Payable	\$520,855	\$591,387	\$9,794	\$1,122,036
State Aid Anticipation Note Payable	3,500,000	0	0	3,500,000
Due to Other Funds	7,528	0	0	7,528
Salaries Payable	1,041,719	0	0	1,041,719
Total Liabilities	\$5,070,102	\$591,387	\$9,794	\$5,671,283
<u>FUND BALANCES</u>				
Reserved For:				
Inventory	110,573	0	7,752	118,325
Debt Retirement	0	0	968,474	968,474
Capital Projects	0	10,652,863	417,706	11,070,569
Unreserved:				
Undesignated, Reported In:				
General Fund	606,345	0	0	606,345
School Service Funds	0	0	48,531	48,531
Total Fund Balances	<u>\$716,918</u>	<u>\$10,652,863</u>	<u>\$1,442,463</u>	<u>\$12,812,244</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$5,787,020</u>	<u>\$11,244,250</u>	<u>\$1,452,257</u>	<u>\$18,483,527</u>

See accompanying notes to the basic financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
AS OF JUNE 30, 2007

Total Governmental Fund Balances:		\$12,812,244
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$23,059,026 and the accumulated depreciation is \$11,105,338		11,580,023
Construction in Progress		2,816,413
Accrued Interest on Long-Term Debt		(172,051)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds Payable	\$23,864,559	
Severance Payable	250,000	
Sick Pay Payable	300,149	
Total Long-Term Liabilities		<u>(24,414,708)</u>
<u>TOTAL NET ASSETS -</u>		
<u>GOVERNMENTAL ACTIVITIES</u>		<u>\$2,621,921</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	General Fund	2006 Capital Projects	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>				
Local Sources	\$1,402,335	\$520,841	\$2,053,895	\$3,977,071
State Sources	12,703,455	0	28,212	12,731,667
Federal Sources	643,226	0	285,994	929,220
Total Revenues	<u>\$14,749,016</u>	<u>\$520,841</u>	<u>\$2,368,101</u>	<u>\$17,637,958</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	9,320,901	0	0	9,320,901
Student Services	330,763	0	0	330,763
Instructional Support	147,800	0	0	147,800
General Administration	330,199	0	0	330,199
School Administration	1,192,100	0	0	1,192,100
Business Administration	495,758	0	0	495,758
Operation & Maintenance of Plant	1,297,088	0	0	1,297,088
Transportation	679,864	0	0	679,864
Other Support Services	168,700	0	0	168,700
Community Services	139,266	0	0	139,266
Food Service	0	0	941,705	941,705
Debt Service	0	0	1,628,198	1,628,198
Capital Outlay				
Building Improvements	0	1,781,444	29,571	1,811,015
Equipment	0	364,439	0	364,439
Purchased Services	0	672,132	0	672,132
Total Expenditures	<u>\$14,102,439</u>	<u>\$2,818,015</u>	<u>\$2,599,474</u>	<u>\$19,519,928</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$646,577	(\$2,297,174)	(\$231,373)	(\$1,881,970)
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers to (from) Other Funds	(258,551)	(312,037)	570,588	0
Bond Issuance Costs	0	(3,800)	0	(3,800)
Other Transfers	107,102	(12,197)	0	94,905
Total Other Financing Sources (Uses)	<u>(\$151,449)</u>	<u>(\$328,034)</u>	<u>\$570,588</u>	<u>\$91,105</u>
Net Change in Fund Balance	\$495,128	(\$2,625,208)	\$339,215	(\$1,790,865)
<u>FUND BALANCE - BEGINNING</u>	<u>221,790</u>	<u>13,278,071</u>	<u>1,103,248</u>	<u>14,603,109</u>
<u>FUND BALANCE - ENDING</u>	<u>\$716,918</u>	<u>\$10,652,863</u>	<u>\$1,442,463</u>	<u>\$12,812,244</u>

See accompanying notes to the basic financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Total net change in fund balances - governmental funds	(\$1,790,865)
--	---------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	(373,665)
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Construction in Progress	2,679,093
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Decrease in Severance Package	135,000
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	570,000
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Change in accrued interest on long-term liabilities	4,066
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(Increase) in accrued compensated absences	<u>300,722</u>
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<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u><u>\$1,524,351</u></u>
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DURAND AREA SCHOOLS - DURAND, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
AS OF JUNE 30, 2007

	<u>Trust & Agency</u>	<u>Private Purpose Trusts</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$90,982	\$149,629	\$240,611
<u>LIABILITIES</u>			
Due to Student Groups	<u>90,982</u>	<u>0</u>	<u>90,982</u>
<u>NET ASSETS - HELD IN TRUST FOR OTHERS</u>	<u>\$0</u>	<u>\$149,629</u>	<u>\$149,629</u>

See accompanying notes to the basic financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Private Purpose Trusts</u>
<u>REVENUE</u>	
Interest	\$1,469
Donations	16,000
Total Revenue	<u>\$17,469</u>
<u>EXPENDITURES</u>	
Scholarships	5,490
Membership Fees	3,100
Total Expenditures	<u>\$8,590</u>
<u>CHANGE IN NET ASSETS</u>	\$8,879
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>140,750</u>
<u>NET ASSETS - END OF YEAR</u>	<u><u>\$149,629</u></u>

See accompanying notes to the basic financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<u>REVENUES</u>				
Local Sources	\$1,351,482	\$1,342,988	\$1,402,335	\$59,347
State Sources	12,861,429	12,668,896	12,703,455	34,559
Federal Sources	409,000	682,831	643,226	(39,605)
Total Revenues	<u>\$14,621,911</u>	<u>\$14,694,715</u>	<u>\$14,749,016</u>	<u>\$54,301</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	9,216,768	9,324,853	9,320,901	3,952
Student Services	392,705	351,616	330,763	20,853
Instructional Support	148,573	156,754	147,800	8,954
General Administration	358,270	330,708	330,199	509
School Administration	1,246,287	1,194,804	1,192,100	2,704
Business Administration	399,596	496,769	495,758	1,011
Operation & Maintenance of Plant	1,390,815	1,385,579	1,297,088	88,491
Transportation	769,802	727,185	679,864	47,321
Other Support Services	167,207	178,462	168,700	9,762
Community Services	125,695	164,176	139,266	24,910
Total Expenditures	<u>\$14,215,718</u>	<u>\$14,310,906</u>	<u>\$14,102,439</u>	<u>\$208,467</u>
Excess of Revenues Over Expenditures	\$406,193	\$383,809	\$646,577	\$262,768
<u>OTHER FINANCING SOURCES (USES)</u>	<u>(364,300)</u>	<u>(284,300)</u>	<u>(151,449)</u>	<u>132,851</u>
Net Change in Fund Balance	\$41,893	\$99,509	\$495,128	\$395,619
<u>FUND BALANCE - BEGINNING</u>			<u>221,790</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$716,918</u>	

See accompanying notes to the basic financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Durand Area Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains two school service funds: Food Service and Athletic Funds.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Sinking Fund

The Capital Projects Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan. Voters in the School District authorized $\frac{3}{4}$ mill on March 11, 1997 for ten years to be used for school facility improvement.

Capital Projects Fund

The Capital Projects Fund is used to account for the acquisition and construction of major facilities by the School District.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption.

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I) COMPENSATED ABSENCES (Continued)

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.
- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

1968 PA 2 provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

4) DEPOSITS AND INVESTMENTS

As of June 30, 2007, the District had the following investments.

Investment Type	Fair value	Weighted Average Maturity (Years)	Credit Quality Rating	Portfolio %
MILAF - Agency Discount Notes	\$ 1,940,899	0.0207	AAAm	17.33%
MILAF - Agency Notes and Bonds	6,432,992	0.9391	AAAm	57.44%
MILAF - Commercial Paper	2,802,138	0.1575	AAAm	25.02%
MILAF External Investment Pool - MICMS	22,603	0.0027	AAAm	0.20%
MILAF External Investment Pool - MIMAX	408	0.0027	AAAm	0.00%
Total fair value	<u>\$11,199,040</u>	1.1227		<u>100.00%</u>
Portfolio weighted average maturity		<u>0.5824</u>		

1 day maturity equals 0.0027, one year equals 1.00.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

4) DEPOSITS AND INVESTMENTS (Continued)

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2007, the District's investment in the investment pool was rated AAA by Standards & Poor's and AAA by Moody's Investors Service.

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2007, \$4,215,202 of the District's bank balance of \$5,441,687 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously report in Note 4:

Deposits – Including Fiduciary Funds of \$240,611	\$ 5,133,077
Investments	<u>11,199,040</u>
<u>TOTAL</u>	<u>\$ 16,332,117</u>

The above amounts are reported in the financial statements as follows:

Cash Agency Fund	\$ 90,982
Cash Private Purpose Trusts	149,629
Cash – District Wide	4,892,466
Investments – District Wide	<u>11,199,040</u>
<u>TOTAL</u>	<u>\$ 16,332,117</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2007, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 2,148,489
Federal Grants	117,679
<u>TOTAL GOVERNMENTAL ACTIVITIES</u>	<u>\$ 2,266,168</u>

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the employment commission for all benefits charged against the District for the year. For the year ended June 30, 2007, the District's unemployment costs were \$44,167.

8) SHORT-TERM DEBT

The District borrowed \$3,500,000 at 3.68% interest per annum on August 20, 2006, from Chase Bank on a State Aid Anticipation Note. The short-term note proceeds were used to meet cash flow needs. The balance as of June 30, 2007 was \$3,500,000. The note matures on August 20, 2007.

	<u>BALANCE</u> <u>JULY 1, 2006</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2007</u>
State Aid Note	<u>\$2,850,000</u>	<u>\$3,500,000</u>	<u>\$2,850,000</u>	<u>\$3,500,000</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	<u>BALANCE</u> <u>JULY 1, 2006</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2007</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$19,892,962	\$0	\$0	\$19,892,962
Land	115,788	0	0	115,788
Equipment and Furniture	1,707,164	10,612	0	1,717,776
Vehicles	1,343,112	138,922	0	1,482,034
Totals at Historical Cost	<u>\$23,059,026</u>	<u>\$149,534</u>	<u>\$0</u>	<u>\$23,208,560</u>
Less: Accumulated Depreciation				
Buildings and Improvements	(8,677,922)	(408,357)	0	(9,086,279)
Equipment and Furniture	(1,436,653)	(41,318)	0	(1,477,971)
Vehicles	(990,763)	(73,524)	0	(1,064,287)
Total Accumulated Depreciation	<u>(\$11,105,338)</u>	<u>(\$523,199)</u>	<u>\$0</u>	<u>(\$11,628,537)</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$11,953,688</u>	<u>(\$373,665)</u>	<u>\$0</u>	<u>\$11,580,023</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Support Services	\$ 99,146
Athletics	6,671
Unallocated	<u>417,382</u>
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 523,199</u>

10) SELF INSURANCE POOL

The School District participates in a public entity risk pool (self-insurance pool) for its workers' compensation, and property and casualty insurance. The pool is through the MASB/SET/SEG and is administered by Corporate Services. The pool provides for reinsurance by various insurance companies at various levels, depending on the coverage. Should the pool experience significant losses in the aggregate, the School District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years. Premiums for the year ended June 30, 2007 were \$79,619 and the School District received a dividend refund of \$11,128.

11) LONG-TERM LIABILITIES

A) DURANT RESOLUTION PACKAGE BONDS

Durand Area Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$270,227 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2007 was \$159,559.

B) 2006 BUILDING AND SITE BONDS

Durand Area Schools issued general obligation - limited tax bonds for the purpose of remodeling and equipping school facilities. The bonds are dated May 2, 2006 in the aggregate amount of \$13,570,000 and require annual payments of principal and interest. The interest rates range from 4.0% to 5.0% per annum. The principal balance at June 30, 2007 was \$13,470,000.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

11) LONG-TERM LIABILITIES (Continued)

C) 2005 REFUNDING BONDS

On March 29, 2005, the Durand Area Schools issued \$10,315,000 in General Obligation – Unlimited Tax Bonds with an average interest ranging from 3.00% to 4.40%. The District issued the bonds to advance refund \$10,710,000 of the outstanding 1997 Building & Site Bonds with a interest rate ranging from 5.250% to 5.375%. The net proceeds were deposited with an escrow agent and used to purchase U.S. Government Securities. These securities will provide for future debt service on the 2005 Refunding Bonds. As a result, the 1997 Refunding Bonds are considered defeased and the District has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$10,235,000 at June 30, 2007.

D) SEVERANCE PACKAGE PAYABLE

Durand Area Schools has approved a severance package payable for 11 teachers. The package requires annual payments of \$12,500 per teacher for a period of four years. The balance at the end of June 30, 2007 was \$250,000.

E) ANNUAL PRINCIPAL REQUIREMENTS

The annual principal requirements for all debts outstanding as of June 30, 2007 are as follows:

	Bonds Payable	Severance Payable	Interest	Total
June 30, 2008	\$630,000	\$125,000	\$1,032,310	\$1,787,310
June 30, 2009	665,039	125,000	1,015,997	1,806,036
June 30, 2010	762,613	0	1,026,044	1,788,657
June 30, 2011	706,505	0	969,481	1,675,986
June 30, 2012	747,289	0	943,846	1,691,135
June 30, 2013-2017	4,153,113	0	4,237,287	8,390,400
June 30, 2018-2022	5,150,000	0	3,257,381	8,407,381
June 30, 2023-2027	5,925,000	0	2,035,532	7,960,532
June 30, 2028-2031	5,125,000	0	599,500	5,724,500
<u>TOTAL</u>	<u>\$23,864,559</u>	<u>\$250,000</u>	<u>\$15,117,378</u>	<u>\$39,231,937</u>

The payment dates of sick and vacation pay payable is undeterminable. The interest expenditures on long-term obligations for the year were \$1,057,872.

F) CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions of the School District for the year ended June 30, 2007.

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007	Amount Due in One Year
Governmental Activities:					
Energy & Durant Bonds	\$159,559	\$0	\$0	\$159,559	\$0
Building & Site Bonds	24,275,000	0	570,000	23,705,000	630,000
Severance Payable	385,000	0	135,000	250,000	135,000
Sick & Vacation Pay Payable	600,871	0	300,722	300,149	0
<u>TOTAL</u>	<u>\$25,420,430</u>	<u>\$0</u>	<u>\$1,005,722</u>	<u>\$24,414,708</u>	<u>\$765,000</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

12) INTERFUND ACTIVITY

Interfund balances at June 30, 2007 consisted of the following:

DUE TO	DUE FROM	
		<u>FOOD SERVICE</u>
General Fund		<u>\$7,528</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

13) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2007, consisted of the following:

TRANSFERS TO	TRANSFERS FROM		
	<u>GENERAL FUND</u>	<u>CAPITAL PROJECTS</u>	<u>TOTAL</u>
Athletics Fund	\$258,551	\$0	\$258,551
Debt Retirement Fund	<u>0</u>	<u>312,037</u>	<u>312,037</u>
<u>TOTAL</u>	<u>\$258,551</u>	<u>\$312,037</u>	<u>\$570,588</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them (2) move receipts restricted to debt service from the funds collecting the receipts to the fund servicing the debt as debt payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

14) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

Funding Policy

Employer contributions to the MPERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 16.34 percent for the period July 1, 2006 through September 30, 2006 and 17.74 percent for the period October 1, 2006 through June 30, 2007 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPERS pension plan for the years ended June 30, 2007, 2006 and 2005 were \$1,453,448, \$1,328,239 and \$1,247,237, respectively.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

14) DEFINED BENEFIT PENSION PLAN (Continued)

Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS pension plan discussed above.

15) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

16) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs, principally of which is the Title I grant. These programs are subject to program compliance audits. The audit of these programs for and including the year ended June 30, 2007, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the District expects such amounts, if any, to be immaterial.

17) SUBSEQUENT EVENT

The District borrowed \$4,000,000 at a interest of 3.68% on August 20, 2007 on a State Aid Anticipation Note.

OTHER SUPPLEMENTAL
INFORMATION

DURAND AREA SCHOOLS - DURAND, MICHIGAN
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2007

	Special Revenue Fund	Debt Retirement Fund	Sinking Capital Projects Fund	Total Other Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$46,067	\$968,474	\$417,706	\$1,432,247
Due From Other Governmental Units	4,730	0	0	4,730
Due from Other Funds	7,528	0	0	7,528
Inventory	7,752	0	0	7,752
<u>TOTAL ASSETS</u>	<u>\$66,077</u>	<u>\$968,474</u>	<u>\$417,706</u>	<u>\$1,452,257</u>
<u>LIABILITIES</u>				
Accounts Payable	\$9,794	\$0	\$0	\$9,794
<u>FUND BALANCES</u>				
Reserved For:				
Inventory	7,752	0	0	7,752
Debt Retirement	0	968,474	0	968,474
Capital Projects	0	0	417,706	417,706
Unreserved:				
Undesignated, Reported In:				
School Service Fund	48,531	0	0	48,531
Total Fund Balances	<u>\$56,283</u>	<u>\$968,474</u>	<u>\$417,706</u>	<u>\$1,442,463</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$66,077</u>	<u>\$968,474</u>	<u>\$417,706</u>	<u>\$1,452,257</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Special Revenue Fund	Debt Retirement Fund	Sinking Capital Projects Fund	Total Other Governmental Funds
<u>REVENUES</u>				
Local Sources	\$378,931	\$1,484,217	\$190,747	\$2,053,895
State Sources	28,212	0	0	28,212
Federal Sources	285,994	0	0	285,994
Total Revenues	<u>\$693,137</u>	<u>\$1,484,217</u>	<u>\$190,747</u>	<u>\$2,368,101</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers from Other Funds	<u>258,551</u>	<u>312,037</u>	<u>0</u>	<u>570,588</u>
Total Revenues & Other Financing Sources (Uses)	<u>\$951,688</u>	<u>\$1,796,254</u>	<u>\$190,747</u>	<u>\$2,938,689</u>
<u>EXPENDITURES</u>				
Food Service	941,705	0	0	941,705
Debt Service	0	1,628,198	0	1,628,198
Capital Projects				
Building Improvements	<u>0</u>	<u>0</u>	<u>29,571</u>	<u>29,571</u>
Total Expenditures	<u>\$941,705</u>	<u>\$1,628,198</u>	<u>\$29,571</u>	<u>\$2,599,474</u>
Net Change in Fund Balance	<u>\$9,983</u>	<u>\$168,056</u>	<u>\$161,176</u>	<u>\$339,215</u>
<u>NET ASSETS - BEGINNING</u>	<u>46,300</u>	<u>800,418</u>	<u>256,530</u>	<u>1,103,248</u>
<u>NET ASSETS - ENDING</u>	<u><u>\$56,283</u></u>	<u><u>\$968,474</u></u>	<u><u>\$417,706</u></u>	<u><u>\$1,442,463</u></u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
SPECIAL REVENUE FUND
COMBINING BALANCE SHEET
AS OF JUNE 30, 2007

	Food Service	Athletic Activities	Total
<u>ASSETS</u>			
Cash and Cash Equivalents	\$24,560	\$21,507	\$46,067
Due From Other Governmental Units	4,730	0	4,730
Due from Other Funds	7,528	0	7,528
Inventory	7,752	0	7,752
<u>TOTAL ASSETS</u>	<u>\$44,570</u>	<u>\$21,507</u>	<u>\$66,077</u>
<u>LIABILITIES</u>			
Accounts Payable	\$2,024	\$7,770	\$9,794
<u>FUND EQUITY</u>			
Fund Balance - Reserved for Inventory	7,752	0	7,752
Fund Balance - Unreserved and Undesignated	34,794	13,737	48,531
Total Fund Equity	\$42,546	\$13,737	\$56,283
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$44,570</u>	<u>\$21,507</u>	<u>\$66,077</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
SPECIAL REVENUE FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Food Service</u>	<u>Athletic Activities</u>	<u>Total</u>
<u>REVENUES</u>			
Local Sources			
Cafeteria Sales	\$281,828	\$0	\$281,828
Athletic Activities	0	92,534	92,534
Earnings on Investments and Deposits	38	6	44
Other Local Revenues	578	3,947	4,525
Total Local Sources	<u>\$282,444</u>	<u>\$96,487</u>	<u>\$378,931</u>
State Sources			
State Reimbursements	28,212	0	28,212
Federal Sources			
Federal Reimbursements	232,505	0	232,505
Federal Commodities	47,141	0	47,141
Headstart	6,348	0	6,348
Total Federal Sources	<u>\$285,994</u>	<u>\$0</u>	<u>\$285,994</u>
Total Revenues	<u>\$596,650</u>	<u>\$96,487</u>	<u>\$693,137</u>
<u>OTHER FINANCING SOURCES</u>			
Transfers from General Fund	0	258,551	258,551
Total Revenues and Other Financing Sources	<u>\$596,650</u>	<u>\$355,038</u>	<u>\$951,688</u>
<u>EXPENDITURES</u>			
Salaries - Professional	45,620	40,083	85,703
Salaries - Non-Professional	173,552	161,363	334,915
Insurances	23,370	4,708	28,078
Fica, Retirement, Etc.	55,162	50,396	105,558
Purchased Services	5,134	27,211	32,345
Supplies and Materials	279,156	63,756	342,912
Capital Outlay	10,981	0	10,981
Other	363	850	1,213
Total Expenditures	<u>\$593,338</u>	<u>\$348,367</u>	<u>\$941,705</u>
<u>EXCESS REVENUES AND OTHER FINANCING</u> <u>SOURCES OVER (UNDER) EXPENDITURES</u>	<u>\$3,312</u>	<u>\$6,671</u>	<u>\$9,983</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$39,234</u>	<u>\$7,066</u>	<u>\$46,300</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$42,546</u>	<u>\$13,737</u>	<u>\$56,283</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
DEBT RETIREMENT FUNDS
COMBINING BALANCE SHEET
AS OF JUNE 30, 2007

	<u>1997</u> <u>Debt</u>	<u>2006</u> <u>Debt</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	<u>\$640,882</u>	<u>\$327,592</u>	<u>\$968,474</u>
<u>TOTAL ASSETS</u>	<u><u>\$640,882</u></u>	<u><u>\$327,592</u></u>	<u><u>\$968,474</u></u>
<u>FUND EQUITY</u>			
Reserved for Debt Retirement	<u><u>\$640,882</u></u>	<u><u>\$327,592</u></u>	<u><u>\$968,474</u></u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
DEBT RETIREMENT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2007

	<u>1997</u> <u>Debt</u>	<u>2005</u> <u>Debt</u>	<u>2006</u> <u>Debt</u>	<u>Total After</u> <u>Interfund</u> <u>Eliminations</u>
<u>REVENUES</u>				
<u>Local Sources</u>				
Property Tax Levy	\$722,706	\$0	\$711,795	\$1,434,501
Earnings on Investments and Deposits	38,497	0	11,219	49,716
Total Local Sources	<u>\$761,203</u>	<u>\$0</u>	<u>\$723,014</u>	<u>1,484,217</u>
<u>OTHER FINANCING SOURCES</u>				
Transfers from Other Funds	<u>0</u>	<u>468,235</u>	<u>312,037</u>	<u>312,037</u>
Total Revenues and Other Financing Sources	<u>\$761,203</u>	<u>\$468,235</u>	<u>\$1,035,051</u>	<u>\$1,796,254</u>
<u>EXPENDITURES</u>				
Principal	430,000	40,000	100,000	570,000
Interest	22,178	428,235	607,459	1,057,872
Other	326	0	0	326
Total Expenditures	<u>\$452,504</u>	<u>\$468,235</u>	<u>\$707,459</u>	<u>\$1,628,198</u>
<u>OTHER FINANCING USED</u>				
Transfers to Other Funds	<u>468,235</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures and Other Financing Uses	<u>\$920,739</u>	<u>\$468,235</u>	<u>\$707,459</u>	<u>\$1,628,198</u>
<u>EXCESS REVENUES AND OTHER</u> <u>FINANCING SOURCES OVER</u> <u>(UNDER) EXPENDITURES AND OTHER</u> <u>FINANCING USES</u>	<u>(\$159,536)</u>	<u>\$0</u>	<u>\$327,592</u>	<u>\$168,056</u>
<u>FUND BALANCE - BEGINNING</u> <u>OF YEAR</u>	<u>\$800,418</u>	<u>\$0</u>	<u>\$0</u>	<u>\$800,418</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$640,882</u>	<u>\$0</u>	<u>\$327,592</u>	<u>\$968,474</u>

INDIVIDUAL FUND SCHEDULES OF
REVENUES, EXPENDITURES AND
OTHER FINANCING USES

DURAND AREA SCHOOLS - DURAND, MICHIGAN
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED JUNE 30, 2007

REVENUES FROMLocal Sources

Property Tax Levy	\$978,436
Earnings on Investments and Deposits	89,530
Preschool	121,389
Tuition	25,505
Transportation	14,110
Medicaid School Based Services	50,254
Other Local Revenues	123,111
Total Revenues from Local Sources	<u>\$1,402,335</u>

State Sources

State Aid	11,894,057
Special Ed Headlee	352,826
Michigan Readiness	69,300
At Risk	250,109
Vocational Education	78,785
Other State Grants	31,355
Durant	27,023
Total Revenues from State Sources	<u>\$12,703,455</u>

Federal Sources

Title I	491,888
Improving Teacher Quality	128,336
Technology Literacy	3,503
Safe and Drug Free Schools	2,196
Medicaid	9,511
Hurricane Relief	254
Homeland Security Grant	7,538
Total Revenues from Federal Sources	<u>\$643,226</u>
Total Revenues	<u>\$14,749,016</u>

OTHER FINANCING SOURCES

Transfers From Other Districts	<u>209,910</u>
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TOTAL REVENUES AND OTHER FINANCING SOURCES

\$14,958,926

DURAND AREA SCHOOLS - DURAND, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2007

INSTRUCTIONBASIC PROGRAMSWilbur Bills - Elementary

Salaries - Professional	\$377,594
Salaries - Non-Professional	30,723
Insurances	95,397
Fica, Retirement, Etc.	97,682
Purchased Services	1,121
Supplies and Materials	17,195
Other	535
Total Wilbur Bills - Elementary	<u>\$620,247</u>

Robert Kerr - Elementary

Salaries - Professional	517,977
Salaries - Non-Professional	25,780
Insurances	148,387
Fica, Retirement, Etc.	137,012
Other Benefits	110,000
Purchased Services	3,375
Supplies and Materials	23,552
Other	434
Total Robert Kerr - Elementary	<u>\$966,517</u>

Doyle Knight - Elementary

Salaries - Professional	531,255
Salaries - Non-Professional	32,938
Insurances	126,518
Fica, Retirement, Etc.	142,179
Purchased Services	2,922
Supplies and Materials	13,516
Other	535
Total Doyle Knight- Elementary	<u>\$849,863</u>

Bertha Neal - Elementary

Salaries - Professional	420,031
Salaries - Non-Professional	32,150
Insurances	130,579
Fica, Retirement, Etc.	113,742
Purchased Services	3,330
Supplies and Materials	16,406
Other	268
Total Bertha Neal - Elementary	<u>\$716,506</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2007

INSTRUCTION (Continued)

BASIC PROGRAMS (Continued)

Junior High

Salaries - Professional	\$1,111,830
Salaries - Non-Professional	43,945
Insurances	271,738
Fica, Retirement, Etc.	290,804
Other Benefits	12,500
Purchased Services	8,331
Supplies and Materials	48,740
Other	1,876
Total Junior High	<u>\$1,789,764</u>

High School

Salaries - Professional	1,103,473
Salaries - Non-Professional	41,582
Insurances	233,755
Fica, Retirement, Etc.	284,802
Other Benefits	12,500
Purchased Services	37,803
Supplies and Materials	75,966
Other	1,842
Total High School	<u>\$1,791,723</u>

Preschool

Salaries - Professional	85,992
Salaries - Non-Professional	45,319
Insurances	25,554
Fica, Retirement, Etc.	33,230
Purchased Services	2,689
Supplies and Materials	8,103
Total Preschool	<u>\$200,887</u>

Total Basic Programs \$6,935,507

ADDED NEEDS

Special Education

Salaries - Professional	558,384
Salaries - Non-Professional	142,426
Insurances	160,224
Fica, Retirement, Etc.	176,665
Supplies and Materials	6,544
Total Special Education	<u>\$1,044,243</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2007

INSTRUCTION (Continued)

ADDED NEEDS (Continued)

Compensatory Education

Salaries - Professional	\$475,742
Salaries - Non-Professional	49,715
Insurances	70,088
Fica, Retirement, Etc.	136,690
Purchased Services	197,820
Supplies and Materials	21,678
Total Compensatory Education	<u>\$951,733</u>

Vocational Education

Salaries - Professional	206,915
Insurances	53,685
Fica, Retirement, Etc.	52,063
Purchased Services	1,780
Supplies and Materials	74,975
Total Vocational Education	<u>\$389,418</u>

Total Added Needs	<u>\$2,385,394</u>
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<u>Total Instruction</u>	<u>\$9,320,901</u>
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SUPPORT SERVICES

STUDENT SERVICES

Salaries - Professional	189,312
Salaries - Non-Professional	51,866
Insurances	27,521
Fica, Retirement, Etc.	60,908
Purchased Services	121
Supplies and Materials	1,035
Total Student Services	<u>\$330,763</u>

INSTRUCTIONAL STAFF

Salaries - Professional	95,541
Insurances	24,717
Fica, Retirement, Etc.	22,392
Purchased Services	2,093
Supplies and Materials	3,057
Total Instructional Staff	<u>\$147,800</u>

GENERAL ADMINISTRATION

Salaries - Professional	135,617
Salaries - Non-Professional	41,559
Insurances	19,258
Fica, Retirement, Etc.	32,281
Purchased Services	82,527
Supplies and Materials	13,528
Other	5,429
Total General Administration	<u>\$330,199</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2007

SUPPORT SERVICES (Continued)

SCHOOL ADMINISTRATION

Salaries - Professional	\$458,176
Salaries - Non-Professional	259,188
Insurances	178,989
Fica, Retirement, Etc.	178,946
Purchased Services	102,589
Supplies and Materials	14,212
Total School Administration	<u>\$1,192,100</u>

BUSINESS OFFICE

Salaries - Professional	82,740
Salaries - Non-Professional	54,646
Insurances	34,014
Fica, Retirement, Etc.	110,170
Purchased Services	80,927
Other	133,261
Total Business Office	<u>\$495,758</u>

OPERATION AND MAINTENANCE OF PLANT

Salaries - Professional	31,889
Salaries - Non-Professional	328,435
Insurances	100,306
Fica, Retirement, Etc.	89,214
Purchased Services	350,208
Supplies and Materials	385,798
Capital Outlay	11,238
Total Operation and Maintenance of Plant	<u>\$1,297,088</u>

TRANSPORTATION

Salaries - Professional	31,889
Salaries - Non-Professional	278,570
Insurances	74,639
Fica, Retirement, Etc.	77,029
Purchased Services	69,926
Supplies and Materials	146,777
Other	1,034
Total Transportation	<u>\$679,864</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2007

SUPPORT SERVICES (Continued)

OTHER SUPPORT SERVICES

Salaries - Professional	\$71,828
Salaries - Non-Professional	13,682
Insurances	14,121
Fica, Retirement, Etc.	20,192
Purchased Services	20,473
Capital Outlay	28,404
Total School Administration	<u>\$168,700</u>

Total Support Services \$4,642,272

COMMUNITY SERVICES

Salaries - Professional	101,286
Insurances	12,043
Fica, Retirement, Etc.	22,756
Purchased Services	1,595
Supplies and Materials	1,450
Other	136
Total Community Services	<u>\$139,266</u>

TOTAL EXPENDITURES \$14,102,439

OTHER FINANCING USES

Transfer to Other Funds	258,551
Transfer to Other Governmental Units	<u>102,808</u>

TOTAL OTHER FINANCING USES \$361,359

TOTAL EXPENDITURES AND OTHER
FINANCING USES

\$14,463,798

DURAND AREA SCHOOLS - DURAND, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2007

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2006	RECEIPTS	DISBURSEMENTS	JUNE 30, 2007
AD	\$5,674	\$9,088	\$10,340	\$4,422
Annual Yearbook	16,393	10,026	19,088	7,331
Archery	0	400	9	391
Art Club	1,863	1,265	1,409	1,719
Band	31	0	0	31
Baseball	658	4,077	1,520	3,215
Basketball Club	2,505	120	2,008	617
Book Deposit Fees	12,177	2,594	4,809	9,962
Bowling Club	0	634	600	34
Class of 2002	1,398	0	100	1,298
Class of 2003	1,887	0	60	1,827
Class of 2004	393	0	0	393
Class of 2005	1,261	0	100	1,161
Class of 2006	2,391	0	261	2,130
Class of 2007	5,339	3,672	3,435	5,576
Class of 2008	(463)	22,515	18,531	3,521
Class of 2009	(100)	5,309	2,948	2,261
Class of 2010	0	2,733	1,603	1,130
Counseling	1,549	1,026	1,238	1,337
Cross Country	37	716	753	0
Drama Club	0	1,051	0	1,051
Education Program - A	16,240	14,210	16,343	14,107
English Department	365	0	262	103
F.F.A.	1,714	17,099	13,589	5,224
FCCLA	460	3,829	3,942	347
Flower Fund - HS	27	553	445	135
Football Club	688	6,962	3,792	3,858
Girls Basketball - HS	976	5,068	4,193	1,851
Golf Team	29	530	252	307
Gym Locks	165	40	61	144
Math	0	42	0	42
Media Center	340	9	0	349
National Honor Society	918	675	893	700
Poms	99	421	302	218
Road Test	1,608	16,292	13,462	4,438
S.A.D.D.	536	0	301	235
S.P.E.D.	782	0	0	782
School Celebration	0	900	472	428
Science	34	1,925	1,916	43
Ski Club	1,453	1,872	1,752	1,573
Soccer - Boys	248	1,500	178	1,570
Sub-Total	\$79,675	\$137,153	\$130,967	\$85,861

DURAND AREA SCHOOLS - DURAND, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2007

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS	RECEIPTS	DISBURSEMENTS	DUE TO (FROM) STUDENT GROUPS
	JULY 1, 2006			JUNE 30, 2007
Soccer - Girls	\$407	\$1,501	\$1,315	\$593
Social Studies	34	0	0	34
Softball Club	545	1,142	1,589	98
Spanish Club	345	0	24	321
Student Government	1,219	2,635	1,725	2,129
Tennis	13	1,857	2,202	(332)
Textbook Fines	0	613	0	613
Tirtha Scholarship	500	500	451	549
Track - Boys	3,786	3,003	6,711	78
Volleyball	1,105	4,030	5,198	(63)
Youth B-Ball	1,053	1,143	1,095	1,101
<u>TOTALS</u>	<u>\$88,682</u>	<u>\$153,577</u>	<u>\$151,277</u>	<u>\$90,982</u>

DURAND AREA SCHOOL - DURAND, MICHIGAN
PRIVATE PURPOSE TRUSTS
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2007

<u>HARVEY FOX SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2006</u>	\$22,699
<u>REVENUE</u>	
Interest	186
<u>EXPENDITURES</u>	
Scholarship Awards	<u>1,000</u>
<u>BALANCE - JUNE 30, 2007</u>	<u>\$21,885</u>
<u>ROBERT McALPINE SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2006</u>	\$11,426
<u>REVENUE</u>	
Interest	86
<u>EXPENDITURES</u>	
Scholarship Awards	<u>325</u>
<u>BALANCE - JUNE 30, 2007</u>	<u>\$11,187</u>
<u>MR. AND MRS. SUMMERHAYS SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2006</u>	\$3,013
<u>REVENUE</u>	
Interest	<u>22</u>
<u>BALANCE - JUNE 30, 2007</u>	<u>\$3,035</u>
<u>RAYMOND McLAUGHLIN MEMORIAL SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2006</u>	\$48,481
<u>REVENUE</u>	
Interest	396
<u>EXPENDITURES</u>	
Scholarships	<u>2,196</u>
<u>BALANCE - JUNE 30, 2007</u>	<u>\$46,681</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
PRIVATE PURPOSE TRUSTS
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2007

<hr/> <hr/>		
	<u>KENNETH LEE ACKERMAN SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2006</u>		\$2,030
<u>REVENUE</u>		
Interest		14
<u>EXPENDITURES</u>		
Scholarships		80
		<hr/>
<u>BALANCE - JUNE 30, 2007</u>		<u>\$1,964</u>
	<u>COURTNEY DEISLER FUND</u>	
<u>BALANCE - JULY 1, 2006</u>		\$7,882
<u>REVENUE</u>		
Interest		60
		<hr/>
<u>BALANCE - JUNE 30, 2007</u>		<u>\$7,942</u>
	<u>OPTIMIST SCHOLARSHIP</u>	
<u>BALANCE - JULY 1, 2006</u>		\$10,357
<u>REVENUE</u>		
Interest		72
<u>EXPENDITURES</u>		
Scholarships		1,000
		<hr/>
<u>BALANCE - JUNE 30, 2007</u>		<u>\$9,429</u>
	<u>DARE FOR DURAND AREA SCHOOLS</u>	
<u>BALANCE - JULY 1, 2006</u>		\$15,281
<u>REVENUE</u>		
Interest		106
<u>EXPENDITURES</u>		
Membership Fees		3,100
		<hr/>
<u>BALANCE - JUNE 30, 2007</u>		<u>\$12,287</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
PRIVATE PURPOSE TRUSTS
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2007

<u>NEAL SISTERS</u>	
<u>BALANCE - JULY 1, 2006</u>	\$4,590
<u>REVENUE</u>	
Donations	6,000
Interest	50
Total Revenue	<u>\$6,050</u>
<u>EXPENDITURES</u>	
Scholarship Awards	<u>889</u>
<u>BALANCE - JUNE 30, 2007</u>	<u>\$9,751</u>
<u>SEDLOCK</u>	
<u>BALANCE - JULY 1, 2006</u>	\$2,668
<u>REVENUE</u>	
Interest	<u>18</u>
<u>BALANCE - JUNE 30, 2007</u>	<u>\$2,686</u>
<u>JOHN A RICHARD MEMORIAL FUND</u>	
<u>BALANCE - JULY 1, 2006</u>	\$12,323
<u>REVENUE</u>	
Interest	<u>92</u>
<u>BALANCE - JUNE 30, 2007</u>	<u>\$12,415</u>
<u>WALDIE BRUNO SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2006</u>	\$0
<u>REVENUE</u>	
Donations	10,000
Interest	367
Total Revenue	<u>\$10,367</u>
<u>BALANCE - JUNE 30, 2007</u>	<u>\$10,367</u>
<u>ALL SCHOLARSHIP FUNDS</u>	
<u>BALANCE - JUNE 30, 2007</u>	<u>\$149,629</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
AS OF JUNE 30, 2007

2005 REFUNDING BONDS

<u>DUE DATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST PAYMENTS DUE</u>		<u>TOTAL</u>
			<u>NOVEMBER 1</u>	<u>MAY 1</u>	
2007-2008	\$495,000	3.000%	\$213,517	\$213,518	\$922,035
2008-2009	510,000	3.000%	206,092	206,092	922,184
2009-2010	530,000	3.500%	198,442	198,442	926,884
2010-2011	550,000	3.500%	189,167	189,168	928,335
2011-2012	570,000	3.550%	179,543	179,542	929,085
2012-2013	595,000	5.000%	169,425	169,425	933,850
2013-2014	615,000	4.000%	154,550	154,550	924,100
2014-2015	640,000	4.000%	142,250	142,250	924,500
2015-2016	655,000	4.000%	129,450	129,450	913,900
2016-2017	680,000	4.000%	116,350	116,350	912,700
2017-2018	695,000	5.000%	102,750	102,750	900,500
2018-2019	715,000	5.000%	85,375	85,375	885,750
2019-2020	735,000	5.000%	67,500	67,500	870,000
2020-2021	750,000	4.300%	49,125	49,125	848,250
2021-2022	750,000	4.400%	33,000	33,000	816,000
2022-2023	750,000	4.400%	16,500	16,500	783,000
<u>TOTAL</u>	<u>\$10,235,000</u>		<u>\$2,053,036</u>	<u>\$2,053,037</u>	<u>\$14,341,073</u>

DATE OF ISSUE - November 24, 1998

Original amount of issue - \$270,227

1998 DURANT RESOLUTION PACKAGE BONDS

<u>PAYMENT DATE - MAY 15TH</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST REQUIREMENT</u>	<u>TOTAL</u>
				<u>FISCAL YEAR REQUIREMENTS</u>
2008	\$0	4.761353%	\$0	\$0
2009	15,039	4.761353%	3,938	18,977
2010	92,613	4.761353%	34,885	127,498
2011	16,505	4.761353%	2,471	18,976
2012	17,289	4.761353%	1,686	18,975
2013	18,113	4.761353%	862	18,975
<u>TOTAL</u>	<u>\$159,559</u>		<u>\$43,842</u>	<u>\$203,401</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
AS OF JUNE 30, 2007

DATE OF ISSUE - May 2, 2006

Original amount of issue - \$13,570,000

2006 SCHOOL BUILDING AND SITE BONDS

<u>DUE DATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST PAYMENTS DUE</u>		<u>TOTAL</u>
			<u>NOVEMBER 1</u>	<u>MAY 1</u>	
2007-2008	\$135,000	4.000%	\$302,637	\$302,638	\$740,275
2008-2009	140,000	4.000%	299,938	299,937	739,875
2009-2010	140,000	4.000%	297,138	297,137	734,275
2010-2011	140,000	4.000%	294,337	294,338	728,675
2011-2012	160,000	4.000%	291,538	291,537	743,075
2012-2013	165,000	4.000%	288,337	288,338	741,675
2013-2014	180,000	4.000%	285,038	285,037	750,075
2014-2015	185,000	4.000%	281,438	281,437	747,875
2015-2016	205,000	4.000%	277,737	277,738	760,475
2016-2017	215,000	4.000%	273,638	273,637	762,275
2017-2018	240,000	4.125%	269,337	269,338	778,675
2018-2019	265,000	4.125%	264,388	264,387	793,775
2019-2020	295,000	4.250%	258,922	258,922	812,844
2020-2021	330,000	4.250%	252,653	252,653	835,306
2021-2022	375,000	4.250%	245,641	245,640	866,281
2022-2023	425,000	4.250%	237,672	237,672	900,344
2023-2024	1,150,000	4.250%	228,641	228,641	1,607,282
2024-2025	1,175,000	4.375%	204,203	204,203	1,583,406
2025-2026	1,200,000	4.375%	178,500	178,500	1,557,000
2026-2027	1,225,000	5.000%	152,250	152,250	1,529,500
2027-2028	1,250,000	5.000%	121,625	121,625	1,493,250
2028-2029	1,275,000	5.000%	90,375	90,375	1,455,750
2029-2030	1,300,000	4.500%	58,500	58,500	1,417,000
2030-2031	1,300,000	4.500%	29,250	29,250	1,358,500
<u>TOTAL</u>	<u>\$13,470,000</u>		<u>\$5,483,733</u>	<u>\$5,483,730</u>	<u>\$24,437,463</u>

DURAND AREA SCHOOLS
DURAND, MICHIGAN
FEDERAL AWARDS
SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007

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September 5, 2007

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education of
Durand Area Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Durand Area Schools, as of and for the year ended June 30, 2007, which collectively comprise the Durand Area Schools' basic financial statements and have issued our report thereon dated September 5, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Durand Area Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Durand Area Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Durand Area Schools' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Durand Area Schools' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Durand Area Schools' financial statements that is more than inconsequential will not be prevented or detected by the Durand Area Schools' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Durand Area Schools' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Durand Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Durand Area Schools

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September 5, 2007

This report is intended solely for the information and use of management, the finance committee, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Knopf PC
LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



September 5, 2007

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Board of Education of
Durand Area Schools

Compliance

We have audited the compliance of Durand Area Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Durand Area Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Durand Area Schools' management. Our responsibility is to express an opinion on Durand Area Schools' compliance based on our audit.

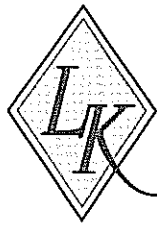
We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Durand Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Durand Area Schools' compliance with those requirements.

In our opinion, Durand Area Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Durand Area Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Durand Area Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Durand Area Schools' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.



Durand Area Schools
Page 2
September 5, 2007

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Durand Area Schools, as of and for the year ended June 30, 2007, and have issued our report thereon dated September 5, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Durand Area Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the finance committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Knopf P.C.
LEWIS & KNOFF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

DURAND AREA SCHOOLS - DURAND, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	PROGRAM OR AWARD AMOUNT
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through Michigan Department of Education:			
Title I Grants to Local Education Agencies	84.010		
ESEA I - Regular (05-06)		61530-0506	\$342,022
ESEA I - Regular (06-07)		71530-0607	343,999
Total Title I Grants to Local Education Agencies			<u>\$686,021</u>
Innovative Education Program Strategies	84.298		
Title V (06-07)		70250-0607	390
Title V (05-06)		60250-0506	794
Total Innovative Education Program Strategies			<u>\$1,184</u>
Technology Literacy Challenge	84.318		
Title IID (06-07)		74290-0607	3,511
Title IID (05-06)		61290-0506	6,381
Total Technology Literacy Challenge			<u>\$9,892</u>
Improving Teacher Quality	84.367		
Title IIA (05-06)		60520-0506	125,606
Title IIA (06-07)		70520-0607	125,188
Total Improving Teacher Quality			<u>\$250,794</u>
Total Passed Through Michigan Department of Education			<u>\$947,891</u>
Passed Through State of Michigan			
Emergency Impact Aid	84.938C		
Elementary & Secondary Education Hurricane Relief		64120-1	940
Passed Through Genesee Intermediate School District			
Safe & Drug free Schools & Communities (06-07)	84.186	72860-0607	2,196
Emergency Response Plans (03-04)	87.184E	Q184EO03509	<u>4,275</u>
<u>TOTAL U.S. DEPARTMENT OF EDUCATION</u>			<u>\$955,302</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through Michigan Department of Education:			
Food Distribution	10.550		
Entitlement Commodities		N/A	46,816
Bonus Commodities		N/A	325
Total Commodities			<u>\$47,141</u>

ACCRUED (DEFERRED) REVENUE JULY 1, 2006	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS PRIOR YEARS	CURRENT YEAR CASH/ PAYMENTS IN KIND RECEIVED	ACCRUED (DEFERRED) REVENUE JUNE 30, 2007
\$0	\$192,156	\$149,866	\$0	\$149,866	\$0
0	0	342,022	0	318,183	23,839
\$0	\$192,156	\$491,888	\$0	\$468,049	\$23,839
0	0	0	0	0	0
0	0	0	0	0	0
\$0	\$0	\$0	\$0	\$0	\$0
0	0	581	0	0	581
3,459	3,459	2,922	0	3,459	2,922
\$3,459	\$3,459	\$3,503	\$0	\$3,459	\$3,503
(4,644)	56,215	69,391	0	35,551	29,196
0	0	58,945	0	0	58,945
(\$4,644)	\$56,215	\$128,336	\$0	\$35,551	\$88,141
(\$1,185)	\$251,830	\$623,727	\$0	\$507,059	\$115,483
686	686	254	0	940	0
0	0	2,196	0	0	2,196
0	0	4,275	0	4,275	0
(\$499)	\$252,516	\$630,452	\$0	\$512,274	\$117,679
0	0	46,816	0	46,816	0
0	0	325	0	325	0
\$0	\$0	\$47,141	\$0	\$47,141	\$0

DURAND AREA SCHOOLS - DURAND, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	PROGRAM OR AWARD AMOUNT
<u>U.S. DEPARTMENT OF AGRICULTURE (Continued)</u>			
Passed Through Michigan Department of Education: (Continued)			
School Breakfast Program	10.553	N/A	\$45,510
National School Lunch Program	10.555	N/A	<u>186,995</u>
<u>TOTAL U.S. DEPARTMENT OF AGRICULTURE</u>			\$279,646
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed Through Capital Area Community Services			
Head Start	93.600	N/A	6,348
Passed Through Shiawassee RESD			
Medical Assistance Program Title XIX			
Medicaid Outreach	93.778	N/A	<u>9,511</u>
<u>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			\$15,859
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Passed Through Shiawassee RESD			
Homeland Security Grant	97.004	N/A	<u>3,263</u>
<u>TOTAL FEDERAL AWARDS</u>			<u><u>\$1,254,070</u></u>

<u>ACCRUED (DEFERRED) REVENUE JULY 1, 2006</u>	<u>PRIOR YEAR EXPENDITURES</u>	<u>CURRENT YEAR EXPENDITURES</u>	<u>ADJUSTMENTS PRIOR YEARS</u>	<u>CURRENT YEAR CASH/ PAYMENTS IN KIND RECEIVED</u>	<u>ACCRUED (DEFERRED) REVENUE JUNE 30, 2007</u>
\$0	\$0	\$45,510	\$0	\$45,510	\$0
<u>0</u>	<u>0</u>	<u>186,995</u>	<u>0</u>	<u>186,995</u>	<u>0</u>
\$0	\$0	\$279,646	\$0	\$279,646	\$0
0	0	6,348	0	6,348	0
<u>0</u>	<u>0</u>	<u>9,511</u>	<u>0</u>	<u>9,511</u>	<u>0</u>
\$0	\$0	\$15,859	\$0	\$15,859	\$0
<u>0</u>	<u>0</u>	<u>3,263</u>	<u>0</u>	<u>3,263</u>	<u>0</u>
<u>(\$499)</u>	<u>\$252,516</u>	<u>\$929,220</u>	<u>\$0</u>	<u>\$811,042</u>	<u>\$117,679</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES/RECONCILIATION TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

FEDERAL REVENUE RECOGNIZED FOR SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS

\$929,220

FEDERAL REVENUE RECOGNIZED PER THE GENERAL
PURPOSE FINANCIAL STATEMENTS PURPOSE

General Fund

\$643,226

School Service Fund

285,994

TOTAL

\$929,220

- 1) The Schedule of Expenditures of Federal Awards had been prepared under the modified accrual basis of accounting.
- 2) Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards. All differences between the Schedule of Expenditures of Federal Awards and the Form R7120 have been reconciled in the attached reconciliation on page 8 of this report.
- 3) As of the date of completion of fieldwork, the Schedule of Transfers to Sub-Recipients from the Intermediate School Districts was not available. The amounts shown on the Schedule of Federal Financial Assistance as flow through from the Intermediate School Districts may not be conclusive.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
RECONCILIATION OF FORM R 7120 "GRANT SECTION AUDITOR'S REPORT"
TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Current Payments Per the Grant Section Auditor's Report (Form R 7120)		\$245,380
Current Payments Per the Grant Section Auditor's Report Cash Management System		
Add: Title I (CFDA 84.010)	\$468,049	
Add: Improving Teacher Quality (CFDA 84.367)	<u>35,551</u>	503,600
<u>Less:</u> State Funded Grants School Breakfast Program State Funds		(8,476)
<u>Add:</u> Grants Passed Through Genesee Intermediate School District: Emergency Response Plans 03-04 (CFDA 87.184E)		4,275
Grants Passed Through Shiawassee RESD Homeland Security (97.004)	\$3,263	
Medicaid Outreach (CFDA 93.778)	<u>9,511</u>	12,774
Total Grants Passed Through Shiawassee RESD		
Entitlement and Bonus Commodities		47,141
Head Start (CFDA 93.600)		<u>6,348</u>
<u>TOTAL CURRENT YEAR RECEIPTS PER SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</u>		<u><u>\$811,042</u></u>

DURAND AREA SCHOOLS- DURAND, MICHIGAN
SUMMARY OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor’s report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

☐ Yes ☒ No

Identification of major programs:

CFDA Number(s)
84.010

Name of Federal Program or Cluster
Title I Grants to Local Agencies

Dollar threshold use to distinguish between type A and type B programs:

\$ 300,000.00

Auditee qualified as low-risk auditee?

☐ Yes ☒ No

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no current year findings.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no current year findings.

DURAND AREA SCHOOLS- DURAND, MICHIGAN
STATUS OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007

2006-1) Title I (CFDA #84.010)

Specific Requirement: Allowable Cost/Cost Principles.

Condition: The District did not complete the documentation required for employees working on multiple activities or cost objectives.

Criteria: The cost principles of OMB Circular A-87 require, "Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards. Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed by the employee.
- (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
 - (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
 - (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
 - (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances."

Effect of Condition: Salaries and wages charged to the program could be disallowed.

Cause of Condition: The cause of the condition was the lack of knowledge of the requirement of the Circular in regards to the need for personal activity reports or equivalent documentation.

Recommendation: The District has developed a personal activity report or equivalent documentation that meets the requirements of the circular.

Status: The District has developed a personal activity report or equivalent documentation that meets the requirements of the circular.

Questioned Cost: None.